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MAR 20 2015

PUBLIC SERVICE
COMMISSION

ROBERT M. WATT, III
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March 20, 2015

HAND DELIVERED

Hon. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40601

Re: Delta Natural Gas Company, Inc.
Case No. 2015-00066

Dear Mr. Derouen:

Please find enclosed for filing an original and nine copies of the Response of Delta Natural Gas Company, Inc. to the Commission Staff's First Request for Information in the above-captioned case. Thank you in advance for assistance. Best regards.

Sincerely,

Robert M. Watt, III

rmw:rmw
Enclosures
cc: Mr. Matthew Wesoloski (w/o encl.)

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MAR 20 2015

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

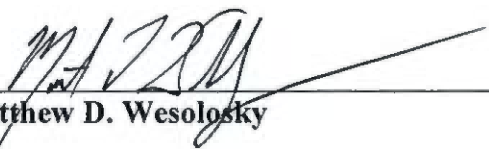
In the Matter of:

AN ADJUSTMENT OF THE PIPE)
REPLACEMENT PROGRAM RIDER OF)
DELTA NATURAL GAS COMPANY, INC.)

CASE NO. 2015-00066

VERIFICATION

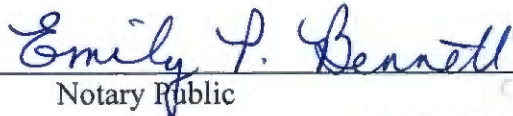
The undersigned, **Matthew D. Wesolosky**, being duly sworn, deposes and states that he is Vice President - Controller of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Matthew D. Wesolosky

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of March, 2015.

 (SEAL)
Notary Public

My Commission Expires:
6/20/16



DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2015-00066

FIRST PSC DATA REQUEST
DATED MARCH 13, 2015

1. Refer to the Application, Schedule I, Line 17. Multiplying the proposed rates by the billing determinants from Schedule I produces revenues of \$1,292,067, a deficiency of \$1,041. Explain whether Delta is concerned that the rates as designed will not generate the revenue requirement.

Response:

The monthly PRP customer charge is calculated by dividing the PRP Adjustment allocated to each customer class by the number of bills for the respective customer class. The \$1,041 difference between PRP adjustment and the amount of revenue generate by the rates is due to rounding the PRP rate to two decimal places. Delta is aware that such rounding can cause minor differences in the amount of estimated revenue generated by the rates and the PRP adjustment. However, the balancing adjustment in the subsequent year would ensure any over or under collection of PRP revenue would be accounted for in the PRP Adjustment.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2015-00066

FIRST PSC DATA REQUEST
DATED MARCH 13, 2015

2. Refer to the Application, Schedule II.
 - a. Confirm that the Investment column for each year is the current period's capital investment and not a cumulative number that includes prior year(s).
 - b. Explain the column titled Tax Expense and how the values are determined for years 2010-2014.
 - c. Explain the column titled Tax Additions and how the values are determined for years 2010-2014.

Response:

- a. Correct. The Investment column for each year is the current period's capital investment and not a cumulative number that includes prior year(s).
- b&c. Capitalization thresholds for financial reporting purposes under generally accepted accounting principles differ from those thresholds for income tax purposes. In most instances, the replacement of pipe for income taxes is treated as a repair expense rather than capitalized and depreciated. To capitalize the replacement for income taxes, the project must either:
 - Replace greater than 50% of the interconnected pipe operating at the same maximum allowable operating pressure (MAOP) within a distribution area or
 - Materially increase the MAOP of the distribution area.

Delta calculates its deferred income taxes on an annual basis at each June 30. As part of this process, replacement projects are reviewed to determine if a work order is capitalized or expensed for income taxes. The Qualifying Tax Expense Percentage used in the PRP filing is the percentage of replacement work orders which were expensed for income tax purposes as of June 30, 2014. The percentage is multiplied by the Book Investment (amount capitalized for financial reporting) to determine the amount of replacements which are expensed for income taxes.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2015-00066

FIRST PSC DATA REQUEST
DATED MARCH 13, 2015

Tax Additions represent the PRP Investment which is capitalized and depreciated for income taxes. Tax Additions are the Book Investment less the amount of investment which qualifies for expense treatment for income taxes.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2015-00066**

**FIRST PSC DATA REQUEST
DATED MARCH 13, 2015**

3. Identify generally the locations of the major main replacements that occurred in 2014 and describe how those specific projects were selected and prioritized.

Response:

See attached for general locations of replacements that occurred during 2014. As in prior years, with an emphasis on public safety, our distribution personnel consider leak history, age and type of pipe in selecting and prioritizing each replacement.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
Case No. 2015-00066
Item 3
Major Main Replacement Projects by Location

System	Footage Installed	Cost
Mt Olivet	1,733	\$ 7,211
Berea	2,594 {1}	(1,642)
Nicholasville	0 {2}	3,646
London	2,938	45,170
Williamsburg	4,233	31,322
Barbourville	6,097	168,020
Middlesboro	1,873	109,062
Corbin	18,261	514,874
Manchester	3,580	104,439
	41,309	\$ 982,102
Replacements less than 1,000 feet		\$ 300,011
Total Distribution and Transmission Mains per PRP Filing 2014 Schedule II		\$ 1,282,113

{1} Includes two replacement projects due to road improvements that were partially billed. Credit balance reflected since the projects were started in 2013 and then completed and billed in 2014.

{2} Represents additional cost for projects completed in the prior year.